

2010 Management Employees Pension Plan Annual Report

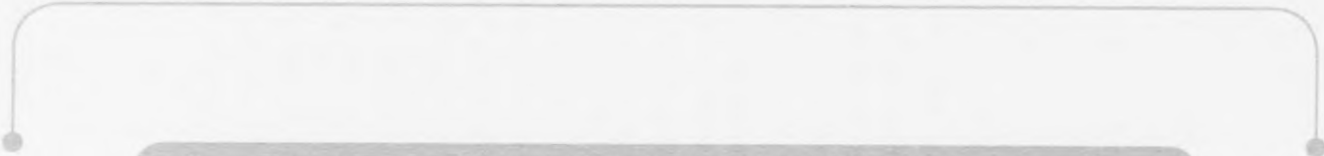




2010 MEPP Annual Report

Table of Contents

Governance Statement.....	5
Administration Report.....	9
Investment Report	15
Financial Statements.....	27
MEPP 10 Year Plan Summary.....	49



Governance Statement

This is the Governance Statement of the
Management Employees Pension Board

The Minister of Finance and Enterprise (the Minister) is the statutory administrator of MEPP and holds all assets of the Plan in trust to provide benefits pursuant to MEPP rules and to meet plan costs.

The Public Sector Pension Plans Act sets out the main objectives of the Management Employees Pension Board (the Board) with respect to funding, administration, investments and amending the Plan. The Board monitors the management of the Plan and acts in an advisory capacity to the Minister.

The Board:

- may advise the Minister on any pension matter that is of interest to persons receiving or entitled in the future to receive benefits under the Plan;
- must be consulted before Plan rule changes can be put in place;
- arranges for actuarial valuations, as required, and regularly reviews long-term actuarial assumptions for funding purposes;
- recommends general policy guidelines for the investment and management of the Plan's assets;
- reviews investment performance;
- recommends general policy guidelines on the administration of the Plan; and
- reviews administrative decisions pursuant to a delegation from the Minister.



Administration Report

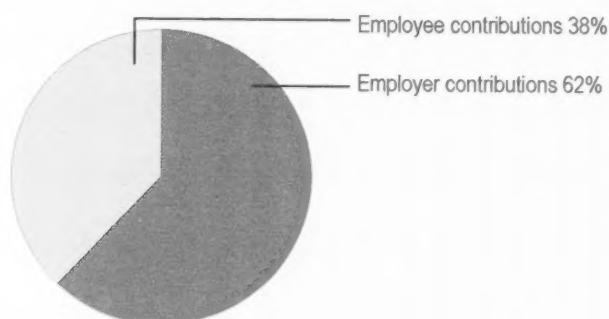
The Management Employee Pension Plan (MEPP)
Administration Report is prepared by Alberta Pensions
Services Corporation (APS), administrators of MEPP

Alberta Pensions Services Corporation (APS) provides valued pensions services (as directed under a Pension Services Agreement with the Minister of Finance and Enterprise) on behalf of Management Employees Pension Plan (MEPP) members, pensioners, employers and plan governors. Services include:

- Contributions management
- Member, pensioner and employer information management
- Member, pensioner and employer communications
- Benefit calculations
- Benefit disbursements
- Policy development and implementation
- Compliance, regulatory and plan financial reporting

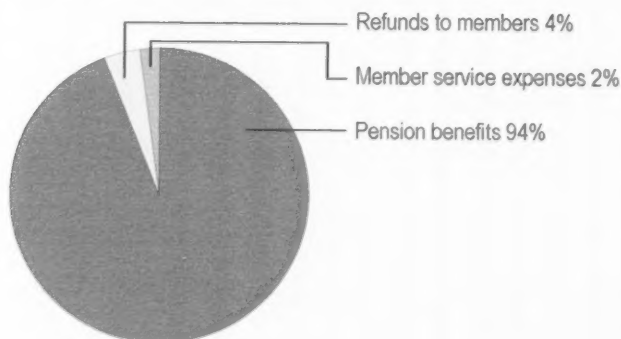
Contributions to MEPP

In 2010, total contributions to MEPP were \$145 million.



Payments from MEPP

In 2010, total payments from MEPP were \$130 million.



MEPP Members, Pensioners and Employers

MEPP has 22 employers and a total of 9,366 active and deferred members and pensioners. In 2010, 313 people joined the Plan, 249 members retired and 80 people terminated from the Plan.

Active membership declined slightly by 1.8 per cent. This could be attributed to many factors including employer hiring and downsizing practices, employer amalgamations that resulted in members transferring plans, internal process changes at APS that affected how members are categorized, industry changes that impacted employer hiring, and economic issues that are considerations for the personal financial decisions of members.

As expected, membership has seen a significant shift with the progression of the baby boomers moving closer to retirement age. The members over 55 years of age has grown, and while this raises some concern about MEPP's aging membership, there has also been an increase in the number of members under the age of 40.

MEPP Member Service Expenses

Member service expenses of \$1.8 million (2009: \$1.5 million) which include the Board costs in the amount of \$.05 million (2009: \$.07 million), were charged to the Plan on a cost-recovery basis. These are \$190 (2009: \$169) per member.

The Plan's share of APS' operating and plan specific costs was based on cost allocation policies approved by the Minister of Alberta Finance and Enterprise.

Cost-of-Living Adjustment (COLA) to Pensions in Pay

After a member begins to receive a pension, a cost-of-living adjustment is applied every year there is an increase in the Alberta Consumer Price Index (ACPI). The cost-of-living adjustment is equal to 60 per cent of the yearly increase of the ACPI.

COLA granted to pensioners who retired prior to January 1, 2010 was 0.6 per cent. For those who retired during 2010, this COLA increase was prorated depending on the month of retirement.

Initiatives in 2010

APS launched the following initiatives in 2010 to further enhance services to our valued MEPP clients:

- **mypensionplan Enhancements**—Members can now update their beneficiary information online. They can also choose to go green and stop receiving their member annual statement in the mail. By selecting this option on the secure member website, members will receive e-mail notification when their member annual statement is available to view online. There were 795 new MEPP members and a total of 2,960 members registered in **mypensionplan**, as of December 31, 2010.
- **Employer Services**—APS created new employer training programs targeted to improve year-end employer reconciliations. A comparison of the 2009 year-end reconciliations compared to an average of the previous three years shows an improvement in the number of employers submitting their information on time.
- **Leaves of Absence Notice of Costs**—APS thoroughly reviewed the Leave of Absence Notice of Cost package, and incorporated both member and employer feedback. The new package contains clear and concise information on the benefits of buying back service, an option to register a decision to purchase service online and a new streamlined process to ease employers' administrative responsibilities. The new product will be available in 2011.

The Year Ahead

In 2011, APS plans to:

- perform a thorough review of the Benefit Options Package and its processes to better help members understand their options.
- provide online registration for members who require one-on-one information sessions.
- continue to work on three multi-year projects to efficiently and effectively address changes in service demand.
 - simplifying processes – APS will streamline processes to add value and clarity for the Corporation and our valued clients, improving the quality and consistency of the pension experience.
 - simplifying policies – This project will reduce complexity of pension plan rules and improve clarity around administrative policies. APS is committed to examining areas of pension administration and plan rules, and look for opportunities to improve understanding for members, employers and staff.
 - simplifying systems – APS uses multiple applications to deliver its services. To be more efficient, APS needs to upgrade and unify the systems to successfully deliver on our mandate to plan boards, members and employers. With improved efficiency, APS can accommodate increases in transaction volumes over time.
- launch a new MEPP website in spring 2011. The website will provide visitors with a more engaging online experience. New features include an online host to guide users to specific services, the top five frequently asked questions, instructional video clips, and an advanced search function.

For further information on MEPP or to access the **mypensionplan** site, please refer to the MEPP website at www.mepp.ca.

Investment Report

The MEPP Investment Report is prepared by the Ministry of Finance and Enterprise with input from Alberta Investment Management Company (AIMCo)

INVESTMENTS

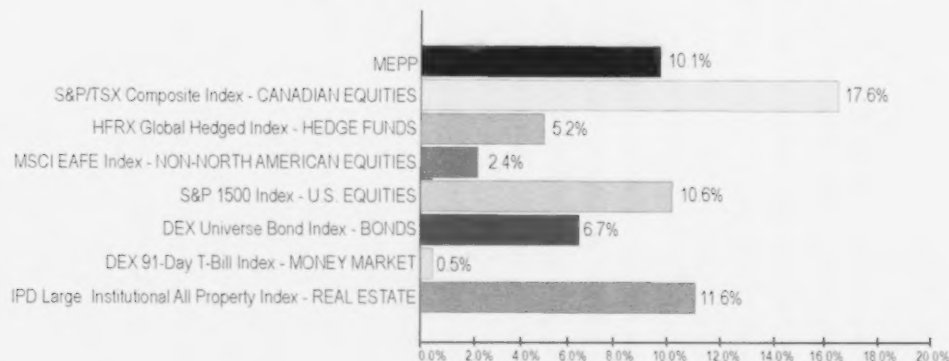
Investment Overview

In 2010, the Plan recorded a gain of 10.1 per cent, or \$237 million, after investment expenses of \$7.2 million compared to last year's gain of 15.1 per cent, or \$300 million, after expenses of \$6.8 million. The fair value of the Plan's investments at the end of 2010 increased to \$2.56 billion, up \$247 million from \$2.31 billion at the end of 2009.

Equity and bond markets were up in 2010 despite fears of a double dip recession and concerns about the sovereign debt crisis in Europe. The U.S. Federal Reserve funds rate remained unchanged throughout the year at a historic low of 0.25 per cent. In Canada, the target overnight rate increased to 1.0 per cent from a record low of 0.25 per cent at the beginning of the year. Oil prices remained relatively stable throughout the year increasing from approximately \$80 U.S. per barrel to \$89 U.S. per barrel at the end of the year.

The following chart summarizes the market returns from various indices around the world and the overall return of MEPP for 2010.

Returns for Major Markets and MEPP (in Canadian dollars)



In 2010, the Canadian stock market represented by the Standard & Poor's Toronto Stock Exchange (S&P/TSX) Composite Index increased by 17.6 per cent down from a gain of 35.1 per cent in 2009.

Hedge funds, represented by the HFRX Global Hedged Index increased by 5.2 per cent this year, down from last year's gain of 12.9 per cent.

Equity markets outside of North America, represented by the Morgan Stanley Capital International Index for Europe, Australasia and the Far East (MSCI EAFE) Index, gained 2.4 per cent in Canadian dollars compared to a gain of 12.6 per cent in 2009.

The S&P 1500 Index, which tracks the performance of the top 1500 American companies, increased by 16.4 per cent in U.S. dollars in 2010, down from last year's gain of 27.3 per cent in U.S. dollars. Returns were lower when translated into the stronger Canadian dollar; the Index gained 10.6 per cent in 2010 compared to a gain of 8.8 per cent in 2009.

The bond market represented by the DEX Universe Bond Index posted a positive return of 6.7 per cent in 2010 up from 5.4 per cent in 2009.

The Canadian real estate market, represented by the IPD Large Institutional All Property Index, gained 11.6 per cent this year, compared to last year's loss of 0.1 per cent.

The value of the Plan's foreign investment portfolio is exposed to foreign currency risk primarily through its investments in non-Canadian equities. The fair value of foreign investments decreases in Canadian dollars when the Canadian dollar strengthens against the foreign currency. At December 31, 2010, one U.S. dollar was worth 99 cents Canadian compared to \$1.05 Canadian at the beginning of the year. One Euro was worth \$1.33 Canadian compared to \$1.50 Canadian at the beginning of the year. As a result of the stronger Canadian dollar, foreign investments decreased in value over the year when translated into Canadian dollars resulting in lower foreign equity returns.

Investment Management Services

AIMCo is a provincial corporation in the Alberta Ministry of Finance and Enterprise. AIMCo invests MEPP's assets subject to legislation and the investment policies recommended by the MEP Board. AIMCo manages the majority of the Plan's investments internally through pooled investment funds. However, for various reasons, such as to achieve greater diversification, access external expertise and specialized knowledge and reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

The Board monitors AIMCo's services and associated charges. An independent investment consultant, API Asset Performance Inc., assists the Board in its review of the investment performance of the Plan. The Board has designed the Plan's investment policies with a focus on assessing the risk tolerance of the Plan members and ways to manage the inherent volatility of the long-term asset mix.

Statement of Investment Policies and Goals (SIP&G)

The SIP&G sets out the governing investment principles and procedures, considering the Plan's provisions, characteristics, and financial obligations. It also defines the management structure and monitoring procedures. The Board reviews the SIP&G at least annually and recommends changes if necessary. The SIP&G can be viewed on the MEPP website at www.mepp.ca.

Asset Mix

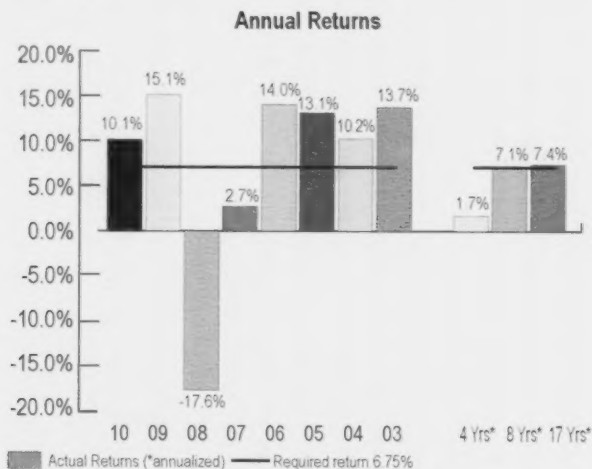
MEPP's asset allocation policy is structured to capture the historically higher rates of return from equities. At December 31, 2010, the long-term target asset mix was weighted more towards equities at 59.0 per cent, followed by inflation sensitive investments at 27.0 per cent and money market and fixed income securities at 14.0 per cent. The illiquid asset classes, such as real estate, private equities, infrastructure and hedge funds, are not always readily available for purchase and will take longer to attain their respective target asset mix.

The table below shows MEPP's long-term policy asset mix benchmark including minimum and maximum ranges for each asset class in comparison to the Plan's actual asset mix at December 31, 2010 and 2009.

	ASSET MIX %				
	Policy Benchmark	Policy Minimum	Policy Maximum	Actual 2010	Actual 2009
Money Market and fixed income	14.0	10.0	40.0	26.0	31.7
Cash & short term		0.0	10.0	0.8	1.6
Universe bonds		0.0	20.0	25.2	30.1
Long bonds		5.0	20.0	0.0	0.0
Equities	59.0	40.0	70.0	58.5	57.0
Canadian		5.0	25.0	14.3	21.8
Foreign		20.0	45.0	40.1	32.9
Private equities		2.0	12.0	3.6	1.9
Hedge funds		0.0	5.0	0.5	0.4
Inflation sensitive	27.0	15.0	40.0	15.5	11.3
Infrastructure		5.0	15.0	2.2	1.9
Real estate		5.0	15.0	5.7	5.4
Real return bonds		5.0	20.0	7.6	4.0
Total	100.0			100.0	100.0

Long-term Investment Objective for Funding Purposes

The chart below compares MEPP's overall actual returns for calendar years 2003 to 2010 and the four, eight and seventeen year annualized time periods against the required long-term investment return for funding purposes of 6.75 per cent. In six of the last eight years, the Plan's actual returns exceeded the required long-term annualized investment return. Over eight years, the annualized actual return of 7.1 per cent was 0.35 per cent more than the required long-term annualized return of 6.75 per cent. Over seventeen years, the Plan's annualized return of 7.4 per cent was 0.65 per cent more than the target long-term rate of return of 6.75 per cent.



Value Added Return from Active Management

In order to measure the investment performance from AIMCo's active management, such as security selection, the investment return for each asset class and the overall performance of the Plan's assets are measured against clearly defined benchmarks that have been established in the SIP&G. The overall performance goal is for AIMCo to add 75 basis points of value, or 0.75 per cent, net of fees, above the policy benchmark return. The policy benchmark return is determined by multiplying the benchmark return for each asset class by its percentage of the total investment portfolio.

In 2010, the Plan recorded an overall market value gain of 10.1 per cent from its investments, 0.4 per cent, or \$9 million, less than the benchmark gain of 10.5 per cent. Over four years, the Plan's investments gained 1.7 per cent per year, 1.1 per cent less than the benchmark gain of 2.8 per cent. On an eight-year basis, the Plan gained 7.1 per cent per year, 0.2 per cent less than the benchmark gain of 7.3 per cent. Over seventeen years, the Plan's investments earned 7.4 per cent, 0.1 per cent greater than the benchmark of 7.3 per cent.

The table below shows MEPP's overall actual investment return and returns for each asset class compared to the policy benchmark return in Canadian dollars.

Table of Investment Returns³

(Returns provided by AIMCo on February 4, 2011)

	Annual Returns (%) (\$ Canadian (1))				Annualized Returns (%) (2)	
	2010	2009	2008	2007	4 yr	8 yr
OVERALL ACTUAL RETURN	10.1	15.1	(17.6)	2.7	1.7	7.1
Policy Benchmark Return	10.5	15.1	(14.5)	2.6	2.8	7.3
Consumer Price Index (CPI)	2.0	1.0	1.2	2.4	1.8	1.8
FIXED INCOME SECURITIES						
Short-Term Fixed Income	1.0	1.8	6.3	5.2	3.6	3.4
DEX 91-Day T-Bill Index	0.5	0.6	3.3	4.4	2.1	2.5
Bonds and Mortgages	9.5	7.2	(0.7)	1.9	4.4	5.6
DEX Universe Bond Index	6.7	5.4	6.4	3.7	5.6	5.8
EQUITIES						
Canadian Equities	18.8	38.3	(33.7)	9.2	4.5	12.4
S&P/TSX Composite Index	17.6	35.1	(33.0)	9.8	4.0	11.9
Foreign Equities	6.7	15.4	(31.2)	(6.8)	(5.7)	2.7
MSCI All Country World Index (ACWI) (4)	6.9	11.3	(25.7)	(7.9)	(5.0)	2.7
Private equities (3)	6.1	(0.2)	(8.5)	21.4	4.1	n/a
MSCI ACWI (5)	16.9	38.2	(29.3)	12.5	6.5	n/a
Hedge funds	12.8	17.2	(27.2)	9.4	1.2	n/a
MSCI ACWI (6)	11.4	12.9	(24.5)	1.5	(0.9)	n/a
INFLATION SENSITIVE						
Real estate	12.2	(7.3)	5.4	20.8	7.3	12.3
IPD Large Institutional All Property Index	11.6	(0.1)	3.1	16.0	7.5	11.1
Real Return Bonds	11.0	13.0	1.0	1.7	6.6	8.5
DEX Real Return Bond Index (RRBI)	11.1	14.5	0.4	1.6	6.7	8.6
Infrastructure (3)	8.0	3.0	14.6	14.1	9.8	n/a
50% MSCI ACWI and 50% DEX RRBI (7)	17.6	7.0	8.0	8.4	10.2	n/a

(1) Annual returns are the returns for one calendar year (12 months).

(2) Annualized returns convert multi-period returns (such as four years) into compound annual returns for ease of comparison between the time periods.

(3) Any changes to returns subsequent to February 4, 2011 will be reflected in the next reporting period. The overall actual return for 2009 has been increased from 15.0 per cent to 15.1 per cent resulting from an increase in estimated 2009 returns for private equities (-2.7 per cent to -0.2 per cent) and infrastructure (2.1 per cent to 3.0 per cent).

(4) Prior to July 1, 2010, the combined S&P 1500 Index and MSCI EAFE Index.

(5) Prior to July 1, 2010, S&P/TSX Composite Index plus 2.5 per cent.

(6) Prior to July 1, 2010, HFRX Global Investable Index (Hedged CS).

(7) Prior to July 1, 2010, CPI plus 6.0 per cent.

The table below shows the value added by AIMCo in comparison to the various components of the policy benchmark.

Value Added / (Lost) by Manager in Comparison to Benchmarks			
	1 Year %	4 Year %	8 Year %
Money Market and Fixed Income Securities			
Short-term Fixed Income	0.5	1.5	0.9
Bonds and Mortgages	2.8	(1.2)	(0.2)
Equity			
Canadian Equity	1.2	0.5	0.5
Foreign Equity	(0.2)	(0.7)	0.0
Private Equity	(10.8)	(2.4)	n/a
Hedge Funds	1.4	2.1	n/a
Inflation Sensitive			
Real Estate	0.6	(0.2)	1.2
Real Return Bonds	(0.1)	(0.1)	(0.1)
Infrastructure	(9.6)	(0.4)	n/a
Total Value Lost	(0.4)	(1.1)	(0.2)

MONEY MARKET AND FIXED INCOME SECURITIES

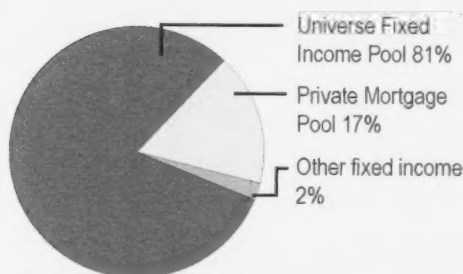
At December 31, 2010, the Plan's fixed income portfolio includes bonds, mortgages and cash and short-term investments totaling \$667 million or 26.0 per cent of total investments compared to \$734 million or 31.7 per cent at December 31, 2009.

Overall, the Canadian bond market performed well this year. The DEX Universe Bond Index measures the performance of marketable Canadian bonds with terms to maturity of more than one year. Over the past year, the Index increased by 6.7 per cent compared to an increase of 5.4 per cent the previous year. The short-term DEX 91-Day T-Bill Index increased by 0.5 per cent compared to 0.6 per cent the previous year.

The Plan's actual gain in 2010 from bonds and mortgages was 9.5 per cent, 2.8 per cent greater than the benchmark gain of 6.7 per cent. Over four years, the bonds and mortgages gained 4.4 per cent, 1.2 per cent less than the benchmark of 5.6 per cent. The Plan's actual gain from cash and short-term investments totalled 1.0 per cent, 0.5 per cent greater than the benchmark gain of 0.5 per cent.

At December 31, 2010, the Plan's bond and mortgage portfolio totaling \$646 million (2009: \$697 million) included investments in AIMCo's Universe Fixed Income Pool (81 per cent) followed by the Private Mortgage Pool (17 per cent) and other fixed income securities (2 per cent).

Summary of Bonds and Mortgages
(Total \$646 million)

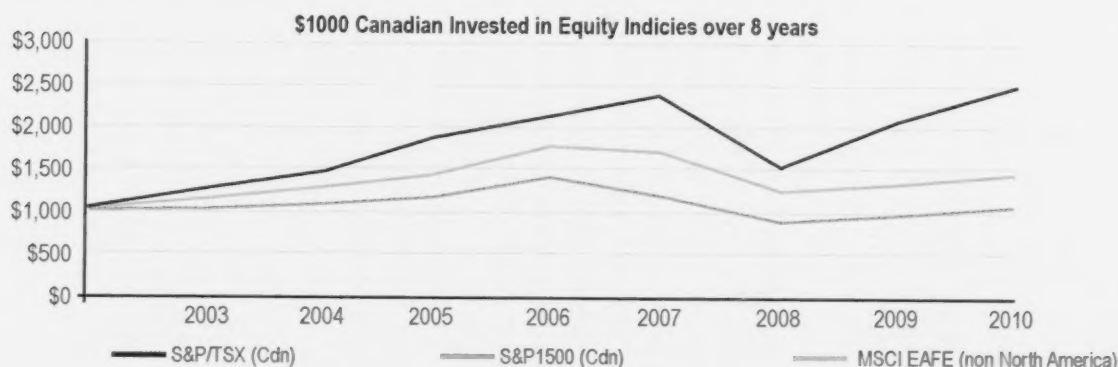


Pooled Fund Securities by Issuer Relative to Benchmark			
	Private Mortgage Pool (%)	Universe Fixed Income Pool (%)	Benchmark DEX Universe Bond Index (%)
Federal	-	12	46
Provincial	3	23	26
Municipal	-	1	1
Corporate	97	59	27
Less than one year	-	5	-
Total per cent	100	100	100

EQUITY INVESTMENTS

Given MEPP's long-term investment horizon, its asset mix policy is structured to capture the historically higher rates of return from equities. At December 31, 2010 equities represent 58.5 per cent (2009: 57.0 per cent) of the Plan's total asset mix and consisted of Canadian public equities 14.3 per cent (2009: 21.8 per cent), foreign public equities 40.1 per cent (2009: 32.9 per cent), private equities 3.6 per cent (2009: 1.9 per cent) and hedge funds 0.5 per cent (2009: 0.4 per cent).

The chart below shows the growth over eight years in \$1,000 dollars (Canadian) invested in major equity markets in Canada, U.S. and non-North America for the period December 31, 2002 to December 31, 2010. For example, \$1,000 dollars invested on December 31, 2002, in the Canadian stock market represented by the S&P/TSX Composite Index would be worth approximately \$2,460 dollars at December 31, 2010. An investment of \$1,000 Canadian dollars in the U.S. equity market would be worth \$1,085 and \$1,354 in the Europe, Australasia and Far East markets.



Canadian Equities

At December 31, 2010, Canadian equities represent 14.3 per cent of MEPP's total investments (or \$367 million) down from 21.8 per cent (or \$504 million) at the end of the previous year. MEPP's Canadian equity investment is held primarily in AIMCo's Canadian Equities Master Pool. The Pool includes directly held investments in Canadian public companies and structured equity products which replicate Canadian public equity investments using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX). Directly held interest bearing securities support the notional value of index swaps and futures contracts.

The actual gain from Canadian equity investments over the year was 18.8 per cent, 1.2 per cent more than the benchmark gain of 17.6 per cent based on the S&P/TSX Composite index.

Canadian Public Equities		
	Actual Return	Benchmark Return
1 Year	18.8%	17.6%
4 Years	4.5%	4.0%
8 Years	12.4%	11.9%

Canadian Equities Master Pool Industry Exposure Relative to Benchmark December 31, 2010	Benchmark TSX Composite Index %	Over (Under) Benchmark %
Consumer discretionary	4.5	2.0
Consumer staples	2.5	3.0
Energy	26.6	(0.6)
Financials	27.9	(1.7)
Health Care	0.8	0.0
Industrials	5.5	0.1
Information technology	2.4	0.8
Materials	24.1	(1.3)
Telecommunications	4.0	1.0
Utilities	1.7	1.7
	100.0	

Foreign Public Equities

At December 31, 2010, foreign equities comprised 40.1 per cent of total MEPP investments (or \$1,029 million), up from 32.9 per cent or \$765 million at the end of the previous year. MEPP's investment in foreign public equities includes investments in AIMCo's Global Equity Master Pool (82 per cent), the Portable Alpha U.S. Pool (6 per cent) and the Emerging Markets Equity Pool (11 per cent) and other equity allocations (2 per cent).

Global Equities

The Global Equities Master Pool includes directly held investments in public companies in the U.S., Europe, Australasia, and the Far East (EAFE) with smaller allocations to emerging markets and Canada. The Pool replicates exposure to foreign equity markets by investing in structured equity products using index swaps and futures contracts. Directly held interest bearing securities support the notional value of index swaps and futures contracts. MEPP's investment in the Portable Alpha U.S. Pool provides value-added returns from hedge fund strategies.

Emerging Markets

MEPP's investment in AIMCo's Emerging Markets Pool makes up approximately 11 per cent of the Plan's foreign equity investment. The Pool is actively managed and includes securities in economies which are in the early stages of development and whose market has sufficient size and liquidity and is receptive to foreign investment. The Pool includes investments in China, Brazil, Taiwan, Korea, Russia, India and other countries.

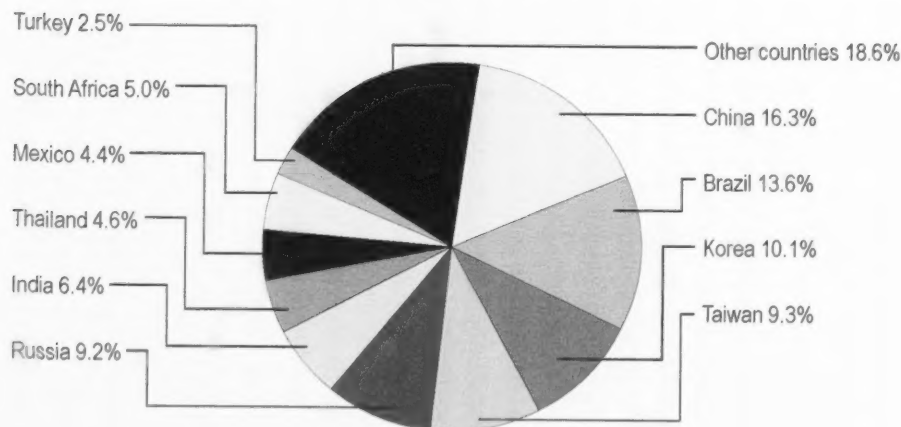
In 2010, the actual gain from foreign public equities was 6.7 per cent, 0.2 per cent less than the benchmark gain of 6.9 per cent based on the MSCI All World Country Index.

Foreign Public Equities		
	Actual Return	Benchmark Return
1 Year	6.7%	6.9%
4 Years	-5.7%	-5.0%
8 Years	2.7%	2.7%

Global Equities Master Pool		
Industry Exposure Relative to Benchmark	Benchmark MSCI World Total Return Index	Over (Under) Benchmark
December 31, 2010		
Sector	%	%
Consumer discretionary	10.4	(1.4)
Consumer staples	9.8	4.6
Energy	11.0	(1.8)
Financials	20.1	(0.1)
Health Care	9.3	(0.6)
Industrials	11.3	6.6
Information technology	11.7	(1.0)
Materials	8.3	(2.1)
Telecommunications	4.2	(0.7)
Utilities	3.9	(0.8)
	<u>100.0</u>	

Global Equities Master Pool		
Relative Regional Exposure to Benchmark	Benchmark MSCI World Total Return Index	Over (Under) Benchmark
December 31, 2010		
Region	%	%
United States	49.1	1.8
Europe, Australasia & the Far East	45.5	0.7
Emerging markets	0.0	(0.3)
Canada	5.4	0.6
	<u>100.0</u>	

Top Ten Countries in Emerging Markets Pool



Private Equities

The Plan's investment in AIMCo's private equity pools comprised 3.6 per cent (or \$91 million) of the total investment portfolio at December 31, 2010 up from 1.9 per cent (or \$44 million) the previous year. AIMCo's private equity pools include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financings, project financings and leverage reductions. In 2010, private equities gained 6.1 per cent which was below the benchmark gain of 16.9 per cent.

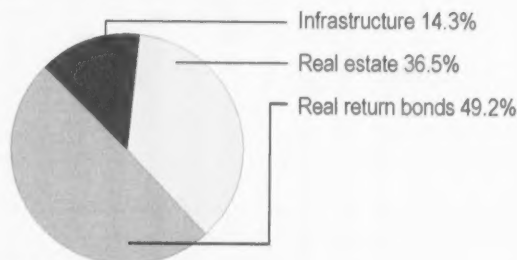
Hedge Funds

The Plan's investment in AIMCo's Absolute Return Strategy Pool comprised 0.5 per cent (or \$13 million) of the total investment portfolio at December 31, 2010 compared to 0.4 per cent (or \$9 million) the previous year. AIMCo's hedge fund pool includes a wide variety of strategies with the objective of realizing positive returns regardless of the overall market direction. Absolute return strategies include distressed securities, relative value, event driven, equity market neutral and merger arbitrage. In 2010, hedge funds gained 12.8 per cent which was greater than the benchmark gain of 11.4 per cent.

INFLATION SENSITIVE

At December 31, 2010, the Plan's inflation sensitive portfolio comprised 15.5 per cent (or \$397 million) of total investments compared to 11.3 per cent (or \$260 million) at the end of the previous year. The inflation sensitive portfolio consists of real estate, infrastructure and real return bonds.

Inflation Sensitive Investments



Infrastructure

The Plan's investment in AIMCo's private income pools (infrastructure pools) comprised 2.2 per cent (or \$57 million) of the total investment portfolio at December 31, 2010 compared to 1.9 per cent (or \$44 million) the previous year. AIMCo's infrastructure pools include projects that provide attractive returns plus inflation sensitivity with a long investment horizon. Infrastructure projects include transportation/logistics (e.g. toll roads, airports, ports and rail), power energy (e.g. contracted power generation and power transmission pipelines) and utilities (e.g. water, waste water and natural gas networks). In 2010, infrastructure investments gained 8.0 per cent, which was below the benchmark gain of 17.6 per cent.

Real Return Bonds

The Plan's investment in AIMCo's Real Return Bond Pool comprised 7.6 per cent (or \$195 million) of the total investment portfolio at December 31, 2010 compared to 4.0 per cent (or \$92 million) the previous year. In 2010, real return bonds gained 11.0 per cent, which was below the benchmark gain of 11.1 per cent.

Real Estate

At December 31, 2010, the Plan's investment in AIMCo's private real estate pools comprised 5.7 per cent (or \$145 million) of total investments compared to 5.4 per cent (or \$124 million) the previous year. Investments are primarily in a mix of office, retail, industrial and residential properties in major Canadian urban areas including Toronto, Ottawa, Montreal, Calgary, Edmonton, and Vancouver. The focus is on quality, featuring strong locations and tenants.

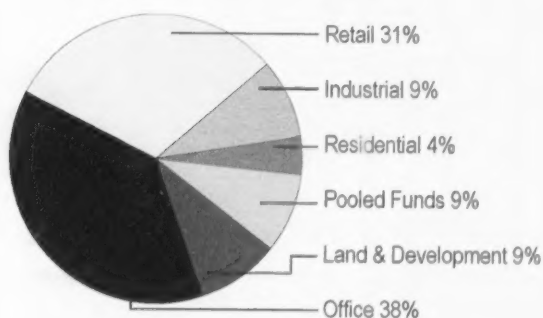
The actual gain from real estate in 2010 was 12.2 per cent, 0.6 per cent more than the benchmark gain of 11.6 per cent from the IPD Large Institutional All Property Index.

Real Estate	Actual Return	Benchmark Return
1 Year	12.2 %	11.6%
4 Years	7.3%	7.5%
8 Years	12.3%	11.1%

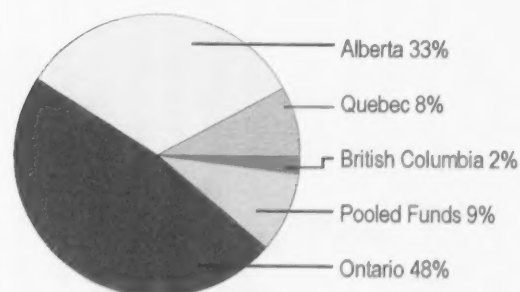
Top Five Real Estate Holdings as at December 31, 2010

Property	Location	Sector
Yorkdale Shopping Centre	Toronto, Ontario	Retail
Square One Shopping Centre	Mississauga, Ontario	Retail
Place Ville Marie	Montreal, Quebec	Office
Scarborough Town Centre	Toronto, Ontario	Retail
Bow Valley Square	Calgary, Alberta	Office

Private Real Estate Pool by Type



Private Real Estate Pool by Province



Proxy Voting

The Board considers proxy voting to be a key element of responsible investing and believes that thoughtful voting is a contributor to optimizing the long term value of investments. We entrust the proxy voting function to AIMCo. Day-to-day research and mechanical functions have been outsourced to an independent advisor who specializes in providing proxy-related services to institutional investors. While AIMCo may review and utilize the recommendations of the research provider in making proxy voting decisions, they are in no way obligated to follow such recommendations.

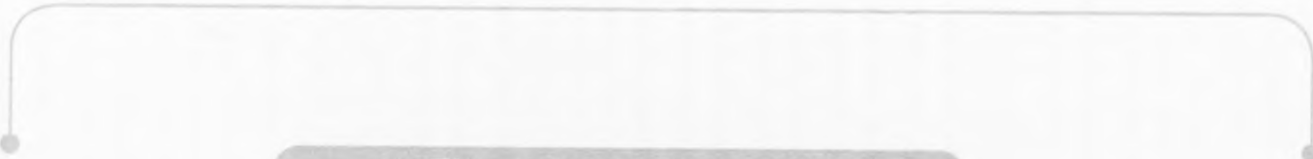
AIMCo believes that good governance enhances long term shareholder relationships and demonstrates that belief as a member of the Canadian Coalition for Good Governance. Membership assists in the monitoring of dissenting opinion from within the organization and peers thereby leading to enriched decisions.

Risk Management System

The Board accepts that in order to meet the return objectives of the Plan, it must take on risk in the assets in which it invests. The Board invests in a diverse set of asset types to help improve the likelihood of achieving its desired results for a given level of risk.

Investment risk management is a central thesis for our investment manager, AIMCo. AIMCo seeks to measure and monitor both historic and possible future risks, allocating risk as a scarce resource to the most promising investment opportunities. AIMCo maintains a quantitative investment risk system designed to operate across all asset classes and a variety of risk types such as market risk, currency risk, and concentration risk.

The Board has established a series of limits on the risks to the Plan's funded status within its investment policy, which will be measured, monitored, and managed on this basis. As the ultimate risk to a pension plan is not being able to meet pension obligations, the Board monitors the risk of the Plan's liabilities in relation to the investment assets. AIMCo will model the risk of both assets and theoretical liabilities and report to the Board on a quarterly basis.



Financial Statements

The MEPP Financial Statements are prepared by the
Ministry of Finance and Enterprise

MANAGEMENT EMPLOYEES PENSION PLAN

Financial Statements

Year Ended December 31, 2010

Independent Auditor's Report	30
Statement of Net Assets Available for Benefits and Liability for Accrued Benefits	31
Statement of Changes in Net Assets Available For Benefits	32
Statement of Changes in Liability for Accrued Benefits	33
Statement of Changes in Deficiency	34
Notes to the Financial Statements	35

Independent Auditor's Report



To the Minister of Alberta Finance and Enterprise

Report on the Financial Statements

I have audited the accompanying financial statements of the Management Employees Pension Plan, which comprise the statement of net assets available for benefits and liability for accrued benefits as at December 31, 2010, and the statements of changes in net assets available for benefits, changes in liability for accrued benefits and changes in deficiency for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the net assets available for benefits and liability for accrued benefits of the Management Employees Pension Plan as at December 31, 2010, and the changes in net assets available for benefits, changes in liability for accrued benefits and changes in deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]

Auditor General
April 15, 2011
Edmonton, Alberta

Statement of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31, 2010

	(\$ thousands)	
	2010	2009
Net Assets Available For Benefits		
Assets		
Investments (Note 3)	\$ 2,563,649	\$ 2,316,398
Accrued investment income and accounts receivable	161	329
Contributions receivable (Note 6)	627	825
	<u>2,564,437</u>	<u>2,317,552</u>
Liabilities		
Accounts payable	244	837
Liabilities for investment purchases	-	9,000
	<u>244</u>	<u>9,837</u>
Net assets available for benefits	<u>2,564,193</u>	<u>2,307,715</u>
Liability for Accrued Benefits		
Actuarial value of accrued benefits (Note 7)	2,961,280	2,790,914
Deficiency	<u>\$ (397,087)</u>	<u>\$ (483,199)</u>

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available For Benefits

Year ended December 31, 2010

	(\$ thousands)	
	2010	2009
Increase in Assets		
Contributions (Note 8)	\$ 144,953	\$ 144,721
Net investment income (Note 9)		
Investment income	244,018	307,231
Investment expenses	(7,224)	(6,805)
Transfers from other plans, net	4,853	14,616
	<u>386,600</u>	<u>459,763</u>
Decrease in Assets		
Pension benefits	122,572	114,834
Refunds to members	5,780	6,552
Member service expenses (Note 11)	1,770	1,527
	<u>130,122</u>	<u>122,913</u>
Increase in net assets	256,478	336,850
Net assets available for benefits at beginning of year	<u>2,307,715</u>	<u>1,970,865</u>
Net assets available for benefits at end of year	<u>\$ 2,564,193</u>	<u>\$ 2,307,715</u>

The accompanying notes are part of these financial statements.

Statement of Changes in Liability for Accrued Benefits

Year ended December 31, 2010

	(\$ thousands)	
	2010	2009
Increase in liability for accrued benefits		
Interest accrued on opening liability for accrued benefits	\$ 179,779	\$ 176,661
Benefits earned	102,230	103,082
Net increase due to actuarial assumption changes (Note 7a)	69,371	52,962
	<u>351,380</u>	<u>358,245</u>
Decrease in liability for accrued benefits		
Benefits paid and transfers	123,499	106,770
Net experience gains (losses) (Note 7b)	57,515	(25,540)
	<u>181,014</u>	<u>81,230</u>
Net increase in liability for accrued benefits	170,366	251,475
Liability for accrued benefits at beginning of year	<u>2,790,914</u>	<u>2,539,439</u>
Liability for accrued benefits at end of year (Note 7)	<u><u>\$ 2,961,280</u></u>	<u><u>\$ 2,790,914</u></u>

The accompanying notes are part of these financial statements.

Statement of Changes in Deficiency

Year ended December 31, 2010

	(\$ thousands)	
	2010	2009
Deficiency at beginning of year	\$ (483,199)	\$ (568,574)
Increase in net assets available for benefits	256,478	336,850
Net increase in liability for accrued benefits	(170,366)	(251,475)
Deficiency at end of year (Note 13)	<u>\$ (397,087)</u>	<u>\$ (483,199)</u>

Notes to the Financial Statements

Year ended December 31, 2010

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Management Employees Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41 and the *Management Employees Pension Plan Alberta Regulation 367/93*, as amended.

a) GENERAL

The Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992, and have not withdrawn from the Plan since that date, continue as members of this Plan. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0570887. The Minister of Alberta Finance and Enterprise is the legal trustee for the Plan and Alberta Finance and Enterprise is management of the Plan. The Plan receives advice from the Management Employees Pension Plan Board (the Board).

b) PLAN FUNDING

Current service costs and the Plan's actuarial deficiency (see Note 13) are funded by employee and employers at contribution rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The contribution rates in effect at December 31, 2010 were unchanged at 10.5% of pensionable salary up to the maximum pensionable salary limit under the *Income Tax Act* for employees and 18.0% for employers.

The contribution rates are reviewed at least once every three years by the Minister of Alberta Finance and Enterprise, in consultation with the Board, based on recommendations of the Plan's actuary. As a result of this review, the contribution rates have been set at January 1, 2011 as follows: 11.16% of pensionable salary up to the maximum pensionable salary limit under the *Income Tax Act* for employees and 19.14% for employers.

c) RETIREMENT BENEFITS

The Plan provides a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. Pensionable earnings after December 31, 1991 are capped at the maximum pensionable salary limit under the *Income Tax Act*. The maximum service allowable under the Plan is 35 years.

Members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of service.

Members are entitled to an unreduced pension on service after 1991 if they retire with at least five years of service and have either attained age 60, or age 55 and the sum of their age and years of service equals 80. Pensions on service after 1991 are reduced if the member is under age 60 and the 80 factor is not attained.

d) DISABILITY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of service.

Individuals who became members after June 30, 2007 and had no combined pensionable service prior to July 1, 2007 are not entitled to disability benefits.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least five years of service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension, or a lump sum payment. For a beneficiary other than a pension partner, or where service is less than five years, the benefits take the form of a lump sum payment.

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with fewer than five years of service receive a refund of their contributions plus interest. The refunds are accounted for as refunds to members on the Statement of Changes in Net Assets Available for Benefits.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a lump sum payment or a deferred pension. The lump sum payment is based on contributions and interest in relation to service before 1992 and commuted value for service after 1991. The commuted value portion of the lump sum payment is subject to the Plan's lock-in provisions.

g) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan.

The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES**a) BASIS OF PRESENTATION**

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the Plan for the year.

The Canadian Accounting Standards Board has announced new accounting standards for pension plans effective for the 2011 year. The Plan will be adopting the new standards

under CICA Section 4600 for the December 31, 2011 year and has determined that the transition will not have a significant impact on its financial statements.

Plan investments are held in pooled investment funds administered by Alberta Investment Management Corporation (AIMCo). Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

b) VALUATION OF INVESTMENTS

Investments are recorded in the financial statements at fair value.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

For private investments and absolute return strategies the fair value is based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from values that would have been used had a ready market existed for these investments.

The methods used by AIMCo to determine the fair value of investments held either by the Plan or by pooled investment funds are explained in the following paragraphs:

- i) Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or average of the latest bid and ask prices quoted by an independent securities valuation company.
- ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- iii) The fair value of private equity and infrastructure investments are estimated by managers or general partners of limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple earnings analyses.
- iv) The fair value of real estate investments is reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.
- v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.

c) INCOME RECOGNITION

Investment income and expenses are recognized on an accrual basis. Dividends are accrued on the ex-dividend date. Gains or losses on investments, including those from derivative contracts, are recognized concurrently with changes in fair value.

d) FOREIGN EXCHANGE

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency interest rate swaps and swap option contracts. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

- i) Equity and bond index swaps are valued based on changes in the appropriate market index net of accrued floating rate interest.
- ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.
- iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.
- iv) Forward foreign exchange contracts and futures contracts are based on quoted market prices.
- v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swaps.

f) VALUATION OF LIABILITY FOR ACCRUED BENEFITS

The value of the liability for accrued benefits and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's liability for accrued benefits, private investments, absolute return strategies and real estate investments. Uncertainty arises because:

- i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's liability for accrued benefits, and
- ii) the estimated fair values of the Plan's private investments, absolute return strategies and real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's liability for accrued benefits, private investments, absolute return strategies and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's accrued benefits are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in liability for accrued benefits in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

NOTE 3 INVESTMENTS

(\$ thousands)				
2010			2009	
Fair Value			Fair Value	
		%		%
Interest-bearing securities				
Deposits and short-term securities ^(a)	\$ 21,085	0.8	\$ 37,005	1.6
Bonds and mortgages ^(b)	646,220	25.2	696,989	30.1
	667,305	26.0	733,994	31.7
Equities				
Canadian public equities ^(c)	367,442	14.3	504,419	21.8
Foreign public equities ^(d)	1,028,848	40.1	764,892	32.9
Private equities ^(e)	90,657	3.6	44,364	1.9
Absolute return strategy hedge funds ^(f)	12,659	0.5	8,690	0.4
	1,499,606	58.5	1,322,365	57.0
Inflation sensitive				
Real estate ^(g)	144,637	5.7	124,121	5.4
Infrastructure ^(h)	56,754	2.2	44,200	1.9
Real return bonds ⁽ⁱ⁾	195,347	7.6	91,718	4.0
	396,738	15.5	260,039	11.3
Total investments ^(j)	\$ 2,563,649	100.0	\$ 2,316,398	100.0

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the Plan's board. The Plan's investments, in each asset class, are held in pooled investment funds established and administered by AIMCo. The fair value of pool units is based on the Plan's share of the net asset value of the pooled investment funds. Pooled investment funds have a market based unit value that is used to

allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

- a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF) totalling \$19,492 (2009: \$30,625) and short-term securities of \$1,593 (2009: \$6,380). These investments include primarily short-term and mid-term interest-bearing securities which have a maximum term to maturity of less than three years. At December 31, 2010, deposits in CCITF had a time-weighted return of 0.8% per annum (2009: 1.4% per annum).
- b) The bond and mortgage portfolio includes allocations to universe bonds totalling \$534,337 (2009: \$583,464) and mortgages totalling \$111,883 (2009: \$113,525). The portfolio includes investments in government direct and guaranteed bonds, mortgage-backed securities, corporate bonds, asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives and loans. At December 31, 2010, interest-bearing long bonds and mortgages had an average effective market yield of 4.3% per annum (2009: 5.3% per annum) and the following term structure based on principal amount: under 1 year: 9% (2009: 3%); 1 to 5 years: 32% (2009: 34%); 5 to 10 years: 32% (2009: 35%); 10 to 20 years: 13% (2009: 13%); and over 20 years: 14% (2009: 15%).
- c) The Plan's Canadian public equity portfolio includes directly held investments in Canadian public companies and indirect exposure to Canadian public equity markets through structured equity products using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX) Composite Index and S&P/TSX 60 Index.
- d) The global developed market is used to describe countries whose economies and capital markets are well established and mature. The Plan's global developed public equity portfolio includes directly held investments in public companies in the U.S., Europe, Australasia and the Far East (EAFE), emerging markets and Canada. The Plan's indirect exposure to global developed markets and emerging markets is also attained by investing in structured equity products using index swaps and futures contracts linked to the Morgan Stanley Capital International (MSCI) World Total Return Index, MSCI EAFE Index, S&P 500 Index and MSCI Emerging Markets Free Net Index. Emerging markets equities consist of publicly traded equities in countries in the process of rapid growth and industrialization such as Brazil, Russia, India and China. The portfolio is actively managed by external managers with expertise in emerging markets. A component of the Plan's global portfolio includes investments in North American concentrated equities which include larger holdings in mid-size Canadian and American companies ranging from 5% to 20% of outstanding common shares.
- e) Private equity investments include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financings, project financings and leverage reductions.
- f) The absolute return strategies (hedge funds) use external managers who employ various investment strategies which are expected to produce absolute positive investment returns with lower volatility. Investments are made through multi-hedge fund-of-funds and direct investments to increase strategy diversification.
- g) The real estate portfolio was primarily held in Canada. Real estate is held through intermediary companies, which issue common shares and participating debentures

secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities which provide diversification from the securities market with opportunities for high return.

- h) Infrastructure investments include investments that are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks).
- i) Real return bonds are issued or guaranteed primarily by the Government of Canada, and bear interest at a fixed rate adjusted for inflation.
- j) The table below provides a summary of management's estimate of the relative reliability of data or inputs used by AIMCo to measure the fair value of the Plan's investments. The measure of reliability is determined based on the following three levels:

Level One: Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities traded in active markets. Level one primarily includes publicly traded listed equity investments.

Level Two: Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

Level Three: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level three primarily includes real estate, hedge funds, private equities, infrastructure and private debt investments. For these investments trading activity is infrequent and fair values are derived using valuation techniques.

Investment:	(\$ thousands)			
	Level one	Level two	Level three*	Total
Interest-bearing securities	\$ -	\$ 553,829	\$ 113,476	\$ 667,305
Equities	903,254	429,129	167,223	1,499,606
Inflation sensitive	-	195,347	201,391	396,738
2010 - Total Amount	\$ 903,254	\$ 1,178,305	\$ 482,090	\$ 2,563,649
- Percent	35%	46%	19%	100%
2009 - Total Amount	\$ 750,489	\$ 1,169,962	\$ 395,947	\$ 2,316,398
- Percent	32%	51%	17%	100%
Increase during the year	\$ 152,765	\$ 8,343	\$ 86,143	\$ 247,251

* Reconciliation of Level 3 Fair Value Measurements

	(\$ thousands)
	2010
Balance, beginning of year	\$ 395,947
Investment income	46,157
Purchases of Level 3 pooled fund units	122,486
Sale of Level 3 pooled fund units	(82,500)
Balance, end of year	<u>\$ 482,090</u>

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with its investment activities. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Board. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following asset mix policy ranges:

Interest-bearing securities (money market and fixed income)	10-40%
Equities	40-70%
Inflation sensitive	15-40%

Credit Risk

Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the Plan. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. Interest bearing securities primarily include investment grade bonds, notes and short-term securities and privately issued mortgage and debt securities. Investment grade securities are those issued by counterparties that have a credit rating of BBB (medium safe investment) to AAA (safe investment with almost no counterparty credit risk).

Foreign Currency Risk

A portion of the Plan's investments are denominated in currencies other than the Canadian dollar and are therefore exposed to foreign currency risk. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. A ten percent increase in the value of the Canadian dollar against all currencies, with all other variables and underlying values held constant, would result in an approximate decrease in the value of the Plan's investments by \$121 million (2009: \$85 million).

Interest Rate Risk

Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. A one percent increase in interest rates, with all other variables held constant, would result in an approximate decrease in the value of the Plan's interest bearing investments of \$69 million (2009: \$56 million).

Price Risk

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan's investments are recorded at fair value on the statement of net assets available for benefits. Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits. A ten percent decrease in equity market indices, with all other variables held constant, would result in an approximate decrease in the value of equity investments by approximately \$121 million (2009: \$118 million).

Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation.

NOTE 5 DERIVATIVE CONTRACTS

A derivative is a financial contract with the following three characteristics: (1) its value changes in response to the change in a specified interest rate, equity or bond index price, foreign exchange rate or credit rating; (2) it requires no initial net investment or the initial investment is smaller than required for exposure to a similar investment market; and (3) it is settled in the future. AIMCo uses various types of derivative contracts through pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk, and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party.

Interest rate derivatives provide for the Plan to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps, futures contracts and options.

Equity replication derivatives provide for the Plan to receive or pay cash based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount. Equity derivatives primarily include equity index swaps, futures contracts and rights, warrants and options.

Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Credit risk derivatives include credit default swaps allowing the Plan to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

The following is a summary of the Plan's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of portfolio investments (Note 3) at December 31, 2010:

	(\$ thousands)						
	2010				2009		
	Maturity			Notional Amount (a)	Net Fair Value b)	Notional Amount (a)	Net Fair Value (b)
	Under 1 Year	1 to 3 Years	Over 3 Years				
	%						
Equity replication derivatives	100	-	-	\$ 1,263,905	\$ 23,006	\$ 693,314	\$ 7,443
Interest rate derivatives	58	19	23	323,879	305	290,558	(5,251)
Foreign currency derivatives	100	-	-	359,001	(630)	412,184	6,195
Credit risk derivatives	47	12	41	320,387	(3,453)	492,381	(3,543)
Derivative related receivables, net					19,228		4,844
Deposits in futures margin accounts					16,508		18,386
Net derivative related investments (included in Note 3)					\$ 35,736		\$ 23,230

At December 31, 2010, the notional value of equity index swap contracts includes amounts related to counter-parties that are public service pension plans and Government of Alberta endowment funds managed by AIMCo totalling \$4,773 (2009: \$6,611). The net fair value of these contracts totalled \$452 (2009: \$4).

NOTE 6 CONTRIBUTIONS RECEIVABLE

Employers
Employees

(\$ thousands)	
2010	2009
\$ 395	\$ 521
232	304
\$ 627	\$ 825

NOTE 7 LIABILITY FOR ACCRUED BENEFITS

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2009 by Aon Hewitt and was then extrapolated to December 31, 2010.

The actuarial assumptions used in determining the value of the liability for accrued benefits of \$2,961,280 (2009: \$2,790,914) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the investment rate of return, inflation rate and salary escalation rate. The investment rate of return is based on the average from a consistent modeled investment return, net of investment expenses, and an additive of 0.5% for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2010	2009
	%	
Investment rate of return	6.40	6.60
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50
Mortality rate	Uninsured Pensioner 1994 Table Projected to 2020 using Scale AA	

* In addition to age specific merit and promotion increase assumptions.

b) NET EXPERIENCE GAINS

Net experience gains of \$57,515 (2009: losses of \$25,540) arose from differences between the actuarial assumptions used in the 2009 valuation and 2010 extrapolation for reporting compared to actual results.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2010:

(\$ thousands)

	Changes in Assumptions	Increase in Plan Deficiency	Increase in Current Service Cost as a % of Pensionable Earnings *
	%	\$	
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0	196,100	1.5
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	12,300	0.5
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0)	383,400	4.0

* The current service cost of accruing benefits (including 0.4% allowance for administration expenses) as a percentage of pensionable earnings as at December 31, 2009 valuation was 20.1%.

NOTE 8 CONTRIBUTIONS

Current and optional service
Employers
Employees

(\$ thousands)	
2010	2009
\$ 90,272	\$ 89,843
54,681	54,878
<u>\$ 144,953</u>	<u>\$ 144,721</u>

NOTE 9 NET INVESTMENT INCOME

a) INVESTMENT INCOME

The following is a summary of the Plan's investment income and expenses by asset class.

	\$ thousands					
	2010			2009		
	Gross Income	Expenses	Net Income	Gross Income (Loss)	Expenses	Net Income (Loss)
Foreign equities	\$ 70,493	\$ (2,849)	\$ 67,644	\$ 113,183	\$ (2,428)	\$ 110,755
Canadian equities	67,934	(630)	67,304	144,172	(847)	143,325
Interest-bearing securities	64,915	(916)	63,999	45,916	(1,114)	44,802
Absolute return strategies	1,359	(94)	1,265	2,422	(94)	2,328
Real estate	15,798	(594)	15,204	(9,219)	(586)	(9,805)
Infrastructure	4,915	(615)	4,300	1,196	(545)	651
Private equities	5,768	(1,400)	4,368	81	(1,159)	(1,078)
Real rate of return bonds	12,836	(126)	12,710	9,480	(32)	9,448
	<u>\$ 244,018</u>	<u>\$ (7,224)</u>	<u>\$ 236,794</u>	<u>\$ 307,231</u>	<u>\$ (6,805)</u>	<u>\$ 300,426</u>

b) INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by Plan and its share of expenses through pool investment funds.

Investment services provided by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

Alberta Finance and Enterprise provides investment accounting, reporting and treasury management services for the Plan. A portion of these costs is charged to the Plan.

Investment expenses as a percentage of average fair value of investments and per member are provided below:

	(\$ thousands)	
	2010	2009
Total investment expenses	\$ 7,224	\$ 6,805
Average fair value of investments	2,440,024	2,138,427
Percent of investments at average fair value	0.30%	0.32%
Investment expenses per member	\$ 779	\$ 755

NOTE 10 INVESTMENT PERFORMANCE (net of investment expenses)

The following is a summary of the investment performance results, net of fees, attained by the Plan.

	2010	2009 restated ^(d)	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return	Seventeen-year Compound Annualized Return
Time-weighted rates of return ^(a)					
			(in percent)		
Actual gain (loss)	10.1%	15.1%	1.8%	7.1%	7.4%
Policy Benchmark gain (loss) ^(b)	10.5%	15.1%	2.8%	7.3%	7.3%
Value added (lost) by investment manager ^(c)	(0.4%)	0.0%	(1.0%)	(0.2%)	0.1%

^(a) The measure involves the calculation of the return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

^(b) The policy benchmark is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determination of the overall policy benchmark are based on management's best estimate which may vary significantly from the final benchmark return. Differences between the estimated sector benchmark returns and the final benchmark returns are recorded in the period of the change.

^(c) In accordance with the SIP&G, the performance goal is for AIMCo to add 75 basis points, or 0.75%, net of fees, above the policy benchmark return.

^(d) All investment returns are provided by AIMCo. The actual return for 2009 has been restated to conform to changes provided by AIMCo subsequent to the completion and audit of the 2009 financial statements. As a result, the overall actual return in 2009 increased from 15.0% to 15.1%, resulting from an increase in estimated fair values and returns for private equities and inflation sensitive investments.

NOTE 11 MEMBER SERVICE EXPENSES

Member service expenses of \$1,770 (2009: \$1,527) which include the Board costs in the amount of \$54 (2009: \$73), were charged to the Plan on a cost-recovery basis. These are \$190 (2009: \$169) per member.

The Plan's share of Alberta Pensions Services Corporation's (APS) operating and plan specific costs was based on cost allocation policies approved by the Minister of Alberta Finance and Enterprise.

NOTE 12 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 9(b) and member service expenses per Note 11 are \$9,000 (2009: \$8,332) or \$969 (2009: \$924) per member and 0.35% (2009: 0.36%) of net assets under administration.

NOTE 13 FUNDING OF ACTUARIAL DEFICIENCY

The Plan's deficiency is determined on the fair value basis for accounting purposes. However, for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to \$ 2,645,259 at December 31, 2010 (2009: \$2,423,000).

In accordance with the Public Sector Pension Plans Act, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totalling 7.8% of pensionable earnings shared between employees and employers until December 31, 2017. The special payments have been included in the rates in effect at December 31, 2010 (see Note 1(b)).

NOTE 14 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2010 presentation.

NOTE 15 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Alberta Finance and Enterprise based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.

MEPP Ten-year Plan Summary as at December 31, 2010

	(\$ thousands)									
	2010	2009	2008	2007 ^A	2006	2005	2004	2003	2002	2001
Change in net assets										
Income										
Investment income (loss)	\$ 244,018	\$ 307,231	\$ (411,196)	\$ 65,059	\$ 279,150	\$ 227,795	\$ 163,484	\$ 190,938	\$ (76,107)	\$ (64,883)
Contributions	144,953	144,721	131,406	114,463	104,003	86,003	66,663	56,297	46,230	42,361
Total income	388,971	451,952	(279,790)	179,522	383,153	313,798	230,147	247,235	(29,877)	(22,522)
Expenditures										
Benefits paid	122,572	114,834	103,672	93,819	84,937	76,873	68,145	61,296	54,714	48,476
Refunds to members	5,780	6,552	8,405	5,987	4,653	1,900	2,117	1,143	1,603	1,247
Transfers to (from) other plans	(4,853)	(14,616)	(8,752)	(985)	(322)	(953)	186	170	293	683
Additional Government contribution	-	-	-	(40,000)	-	-	-	-	-	-
Investment expenses ^A	7,224	6,805	5,945	5,081	3,958	3,368	3,208	1,930	1,868	1,748
Member Service expenses	1,770	1,527	1,375	1,212	1,207	1,416	1,427	1,363	1,105	686
Total expenditures	132,493	115,102	110,645	65,114	94,433	82,604	75,083	65,902	59,583	52,840
Increase (decrease) in net assets	256,478	336,850	(390,435)	114,408	288,720	231,194	155,064	181,333	(89,460)	(75,362)
Net Assets										
Investments										
Short-term	21,085	30,625	8,706	10,780	11,844	11,941	29,865	17,784	9,889	27,737
Fixed income securities	841,567	795,087	665,179	855,975	788,921	741,675	640,618	567,255	529,924	544,517
Equities										
Canadian	367,442	504,419	410,891	551,487	494,753	473,466	449,245	423,513	354,208	457,113
Global	1,028,848	764,892	-	-	-	-	-	-	-	-
United States	-	-	284,038	318,886	354,435	282,183	249,229	230,224	212,193	445,930
Non-North American	-	-	323,824	363,542	374,427	313,927	269,192	255,251	210,579	-
Real Estate	144,637	124,121	175,510	173,182	157,730	126,796	83,191	72,912	69,780	-
Alternative Investments	160,070	97,254	92,307	78,054	55,875	-	-	-	-	-
Total Investments	2,563,649	2,316,398	1,960,455	2,351,906	2,237,985	1,949,988	1,721,340	1,566,939	1,386,573	1,475,297
Contribution and other receivables	788	1,154	11,021	9,694	8,988	8,282	5,779	5,215	4,716	4,769
Liabilities	(244)	(9,837)	(611)	(300)	(81)	(98)	(141)	(240)	(708)	(25)
Net Assets available for benefits	\$2,564,193	\$2,307,715	\$1,970,865	\$2,361,300	\$2,246,892	\$1,958,172	\$1,726,978	\$1,571,914	\$1,390,581	\$1,480,041
Actuarial value of accrued benefits	2,961,280	2,790,914	2,539,439	2,445,641	2,253,657	2,124,067	1,995,079	1,861,928	(1,692,549)	(1,474,703)
Surplus (Deficiency)	(397,087)	(483,199)	(568,574)	(84,341)	(6,765)	(165,895)	(268,101)	(290,014)	(301,968)	5,338
Funded Ratio (%)	87	83	78	97	100	92	87	84	82	100
Performance (%)										
Long-term goal	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	7.0	7.25
Rate of return-nominal	10.1	15.0	(17.6)	2.7	14.0	13.1	10.2	13.7	(5.3)	(4.4)
Benchmark	10.5	15.1	(14.4)	2.6	13.2	11.9	10.0	12.8	(5.6)	(4.1)
Consumer Price Index (Canada)	2.0	1.0	2.0	2.4	1.6	2.2	2.1	2.0	3.9	0.7
Real rate of return	8.1	14.0	(19.8)	0.3	12.4	10.9	8.1	11.7	(9.2)	(5.1)
Interest Rates (%)										
Bank of Canada	1.00	0.25	1.75	4.25	4.25	3.25	2.75	2.75	3.00	2.50
US Federal Reserve	0.25	0.25	0.50	4.25	5.25	4.25	2.25	1.00	0.75	1.25
Market Indices (%)										
S&P/TSX (S&Cdn)	17.6	35.1	(33.0)	9.8	17.3	24.1	14.5	26.8	(12.4)	(12.6)
S&P 1500 (S&Cdn) ^{AA}	10.6	8.8	(21.6)	(10.6)	15.3	1.6	3.3	5.3	(22.9)	(6.4)
MSCI EAFE (S&Cdn)	2.4	12.6	(29.8)	(5.7)	26.0	10.0	12.0	13.3	(16.8)	(16.5)
DEX Universe Bond Index ^{AAA}	6.7	5.4	6.4	3.7	4.1	6.5	7.1	6.7	8.7	8.1
Participants ^{AAAA}										
Active members	5,036	5,452	5,244	4,868	4,654	4,447	4,206	4,029	3,665	3,405
Inactive members	946	631	675	733	789	756	731	770	873	929
Retirees	3,384	3,112	2,905	2,684	2,446	2,211	2,016	1,837	1,669	1,480
Total	9,366	9,195	8,824	8,285	7,889	7,414	6,953	6,636	6,207	5,814
Contribution Rates (%)										
Employees	10.50	10.50	10.50	10.50	10.50	10.50	9.50	9.50	7.75	7.75
Employers	18.00	18.00	18.00	18.00	18.00	18.00	13.10	13.10	10.75	10.75
Annual COLA pension adjustment	0.06	2.16	2.94	2.16	1.20	0.78	3.42	1.02	1.98	1.98

^A Comparative figures have been restated to be consistent with 2007 presentation.

^{AA} S&P 500 for 2005 and prior years.

^{AAA} Scotia Capital Fixed Income Indices for 2006 and prior years.

^{AAAA} Participant counts may differ from the actuarial valuation results due to timing differences and treatment of inactive member accounts.

^{AAAAA} Updated in years when actuarial valuations are performed.

